

Condensed Consolidated  
Interim Financial Statements of

# Timbercreek Senior Mortgage Investment Corporation

Three months and nine months ended September 30, 2015 and 2014

# TIMBERCREEK SENIOR MORTGAGE INVESTMENT CORPORATION

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(Unaudited)

	September 30, 2015	December 31, 2014
<b>ASSETS</b>		
Other assets (note 11(a) and (b))	\$ 749,462	\$ 1,078,711
Mortgage investments, including mortgage syndications (note 5)	506,434,327	483,209,196
<b>Total assets</b>	<b>\$ 507,183,789</b>	<b>\$ 484,287,907</b>
<b>LIABILITIES AND EQUITY</b>		
Accounts payable and accrued expenses	\$ 397,790	\$ 287,264
Dividends payable (note 7(b))	1,572,913	1,577,831
Due to Manager (note 11(a))	-	29,969
Mortgage funding holdbacks	105,097	92,838
Prepaid mortgage interest	316,834	765,165
Credit facility (note 6)	185,590,098	141,233,024
Mortgage syndication liabilities (note 5(b))	31,200,656	51,757,277
<b>Total liabilities</b>	<b>219,183,388</b>	<b>195,743,368</b>
<b>Shareholders' equity</b>	<b>288,000,401</b>	<b>288,544,539</b>
<b>Total liabilities and equity</b>	<b>\$ 507,183,789</b>	<b>\$ 484,287,907</b>
Commitments and contingencies (notes 5 and 13)		
Subsequent events (note 7(b))		

See accompanying notes to the condensed consolidated interim financial statements.

# TIMBERCREEK SENIOR MORTGAGE INVESTMENT CORPORATION

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Interest income:				
Interest, including mortgage syndications	\$ 7,535,802	\$ 6,710,633	\$ 22,561,634	\$ 21,665,701
Fees and other income, including mortgage syndications	610,146	792,405	1,966,384	2,596,386
Gross interest income	8,145,948	7,503,038	24,528,018	24,262,087
Interest and fees expense on mortgage syndications (note 5(b))	(582,387)	(863,994)	(1,898,307)	(3,277,039)
Net interest income	7,563,561	6,639,044	22,629,711	20,985,048
Expenses:				
Management fees (note 9)	1,107,435	956,809	3,289,600	2,870,475
Provision for mortgage investments loss (note 5(c))	–	–	–	175,000
General and administrative	244,152	200,430	701,296	629,280
Total expenses	1,351,587	1,157,239	3,990,896	3,674,755
Income from operations	6,211,974	5,481,085	18,638,815	17,310,293
Financing costs:				
Interest on credit facility (note 6)	1,411,515	884,493	4,241,595	3,218,302
Total financing costs	1,411,515	884,493	4,241,595	3,218,302
<b>Net income and comprehensive income</b>	<b>\$ 4,800,459</b>	<b>\$ 4,597,312</b>	<b>\$ 14,397,220</b>	<b>\$ 14,091,991</b>
<b>Earnings per share (note 10)</b>				
Basic and diluted	\$ 0.15	\$ 0.15	\$ 0.46	\$ 0.45

See accompanying notes to the condensed consolidated interim financial statements.

# TIMBERCREEK SENIOR MORTGAGE INVESTMENT CORPORATION

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

Nine months ended September 30, 2015	Common Shares	Retained Earnings	Total
Shareholders' equity, beginning of period	\$ 288,731,412	\$ (186,873)	\$ 288,544,539
Dividends	–	(14,194,338)	(14,194,338)
Issuance of common shares under dividend reinvestment plan	972,570	–	972,570
Repurchase of common shares under normal course issuer bid	(747,020)	–	(747,020)
Repurchase of common shares under dividend reinvestment plan	(972,570)	–	(972,570)
Net income and comprehensive income	–	14,397,220	14,397,220
<b>Shareholders' equity, end of period</b>	<b>\$ 287,984,392</b>	<b>\$ 16,009</b>	<b>288,000,401</b>

  

Nine months ended September 30, 2014	Common Shares	Retained Earnings	Total
Shareholders' equity, beginning of period	\$ 288,731,412	\$ 30,136	\$ 288,761,548
Dividends	–	(14,200,472)	(14,200,472)
Issuance of common shares under dividend reinvestment plan	761,127	–	761,127
Repurchase of common shares under dividend reinvestment plan	(761,127)	–	(761,127)
Net income and comprehensive income	–	14,091,991	14,091,991
<b>Shareholders' equity, end of period</b>	<b>\$ 288,731,412</b>	<b>\$ (78,345)</b>	<b>\$ 288,653,067</b>

See accompanying notes to the condensed consolidated interim financial statements.

# TIMBERCREEK SENIOR MORTGAGE INVESTMENT CORPORATION

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOW

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
<b>OPERATING ACTIVITIES</b>				
Net income and comprehensive income	\$ 4,800,459	\$ 4,597,312	\$ 14,397,220	\$ 14,091,991
Amortization of lender fees	(550,686)	(723,460)	(1,854,658)	(2,286,633)
Lender fees received	425,765	954,447	1,603,111	1,359,448
Provision for mortgage investments loss	–	–	–	175,000
Financing costs	1,411,515	844,493	4,241,595	3,218,302
Change in non-cash operating items:				
Interest receivable	(250,656)	170,182	(1,036,130)	98,804
Other assets	(114,826)	(411,985)	259,600	442,361
Accounts payable and accrued expenses	110,302	6,435	262,105	(630,826)
Due to Manager	–	(311,991)	(29,969)	(318,901)
Prepaid mortgage interest	(111,438)	(113,988)	(448,331)	(870,692)
Mortgage funding holdbacks	86,199	(919,463)	12,259	(1,030,029)
	<b>5,806,634</b>	<b>4,091,982</b>	<b>17,406,802</b>	<b>14,248,825</b>
<b>FINANCING ACTIVITIES</b>				
Advances from (repayments of) credit facility, net	9,678,504	32,257,158	43,932,192	20,254,229
Repurchase of common shares for cancellation	(747,020)	–	(747,020)	–
Interest paid	(1,370,551)	(949,507)	(3,898,644)	(4,048,486)
Dividends paid	(4,732,272)	(4,733,488)	(14,199,256)	(14,200,472)
	<b>2,828,661</b>	<b>26,574,163</b>	<b>25,087,272</b>	<b>2,005,271</b>
<b>INVESTING ACTIVITIES</b>				
Fundings of mortgage investments, net of mortgage syndications	(79,978,279)	(111,467,160)	(225,623,429)	(203,008,166)
Discharges of mortgage investments, net of mortgage syndications	71,342,984	48,355,210	183,129,355	186,754,070
	<b>(8,635,295)</b>	<b>(63,111,950)</b>	<b>(42,494,074)</b>	<b>(16,254,096)</b>
Increase (decrease) in cash and cash equivalents	–	(32,405,805)	–	–
Cash and cash equivalents, beginning of period	–	32,405,805	–	–
<b>Cash and cash equivalents, end of period</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ –</b>

See accompanying notes to the condensed consolidated interim financial statements.

Notes to the Condensed Consolidated Interim Financial Statements

Three and nine months ended September 30, 2015 and 2014

**1. CORPORATE INFORMATION**

Timbercreek Senior Mortgage Investment Corporation (the "Company") is a mortgage investment corporation domiciled in Canada. The registered office of the Company is 1000 Yonge Street, Suite 500, Toronto, Ontario M4W 2K2. The Company is incorporated under the Canada Business Corporations Act by articles of incorporation dated December 1, 2011. The common shares of the Company are traded on the Toronto Stock Exchange ("TSX") under the symbol 'MTG'.

The investment objective of the Company is, with a primary focus on capital preservation, to acquire and maintain a diversified portfolio of mortgage investments that generate income allowing the Company to pay monthly dividends to shareholders.

The Company has entered into a management agreement with Timbercreek Asset Management Inc. (the "Manager") dated September 13, 2013. The Manager is responsible for the day-to-day operations and providing all general management, mortgage servicing and administrative services to the Company.

**2. BASIS OF PREPARATION**

**(a) Statement of compliance:**

These condensed consolidated interim financial statements of the Company have been prepared by management in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. The presentation of these condensed consolidated interim financial statements is based on accounting policies and practices in accordance with International Financial Reporting Standards ("IFRS"). These accompanying condensed consolidated interim financial statements should be read in conjunction with the notes to the Company's consolidated financial statements for the year ended December 31, 2014 and 2013, since these condensed consolidated interim financial statements do not contain all disclosures required by IFRS for annual financial statements. These condensed consolidated interim financial statements reflect all normal and recurring adjustments which are in the opinion of management, necessary for a fair presentation of the respective interim periods presented.

The condensed consolidated interim financial statements were approved by the Board of Directors on November 9, 2015.

**(b) Principles of consolidation:**

These condensed consolidated interim financial statements include the accounts of the Company and a wholly owned subsidiary of the Company, Timbercreek Senior Mortgage Trust (the "Trust"). All intercompany transactions and balances are eliminated upon consolidation.

## Notes to the Condensed Consolidated Interim Financial Statements

Three and nine months ended September 30, 2015 and 2014

**3. SIGNIFICANT ACCOUNTING POLICIES**

Except as described below, the accounting policies applied by the Company in these condensed consolidated interim financial statements are the same as those applied by the Company in its consolidated financial statements for the year ended December 31, 2014 and 2013, which were prepared in accordance with IFRS.

**Non-executive director deferred share unit plan**

Commencing January 1, 2015, the Company's non-executive directors are participating in a deferred share unit plan (the "Plan") which allows the directors to elect to receive a portion of their compensation in the form of deferred share units ("DSUs"). The benefit resulting from the grant of DSUs under the Plan is recorded in profit and loss when awarded. DSUs granted are included within accrued expenses based on the fair market value of the DSUs on the date of grant and are subsequently measured at each reporting date at their fair market value with changes in the carrying amount recognized in profit and loss.

**4. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS**

The preparation of these condensed consolidated interim financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. There have been no changes in the critical accounting estimates and judgments which were set out in detail in note 2 of the Company's consolidated financial statements for the year ended December 31, 2014 and 2013.

**5. MORTGAGE INVESTMENTS, INCLUDING MORTGAGE SYNDICATIONS**

September 30, 2015	Gross mortgage investments	Mortgage syndication liabilities	Net
Mortgage investments, including mortgage syndications (notes 5(a) and (b))	\$ 504,994,845	\$ (31,204,390)	\$ 473,790,455
Interest receivable	3,613,681	(129,927)	3,483,753
	508,608,526	(31,334,317)	477,274,208
Unamortized lender fees	(1,999,199)	133,661	(1,865,538)
Allowance for mortgage investments loss (note 5(c))	(175,000)	-	(175,000)
	<b>\$ 506,434,327</b>	<b>\$ 31,200,656</b>	<b>\$ 475,233,670</b>

# TIMBERCREEK SENIOR MORTGAGE INVESTMENT CORPORATION

## Notes to the Condensed Consolidated Interim Financial Statements

Three and nine months ended September 30, 2015 and 2014

December 31, 2014	Gross mortgage investments	Mortgage syndication liabilities	Net
Mortgage investments, including mortgage syndications (notes 5(a) and (b))	\$ 482,999,547	\$ (51,703,166)	\$ 431,296,381
Interest receivable	2,653,304	(205,681)	2,447,623
	485,652,851	(51,908,847)	433,744,004
Unamortized lender fees	(2,268,655)	151,570	(2,117,085)
Allowance for mortgage investments loss (note 5(c))	(175,000)	–	(175,000)
	<b>\$ 483,209,196</b>	<b>\$ (51,757,277)</b>	<b>\$ 431,451,919</b>

As at September 30, 2015, unadvanced mortgage commitments under the existing gross mortgage investments amounted to \$95,657,994 (December 31, 2014 – \$129,494,810).

### (a) Net mortgage investments

As at September 30, 2015, the net mortgage investments are secured by a first priority charge, bearing interest at a weighted average interest rate of 6.1% (December 31, 2014 – 6.2%) and mature between 2015 and 2019 (December 31, 2014 – 2015 and 2019).

A majority of the mortgage investments contain a prepayment option, whereby the borrower may repay the principal at any time prior to maturity without penalty or yield maintenance.

For the three and nine months ended September 30, 2015 (“Q3 2015” and “YTD 2015”), the Company received total lender fees, net of fees relating to mortgage syndication liabilities, of \$425,765 and \$1,603,111 (three and nine months ended September 30, 2014 (“Q3 2014” and “YTD 2014”) – \$954,447 and \$1,359,448), respectively, which are amortized to interest income over the term of the related mortgage investments using the effective interest rate method.

Principal repayments, net of mortgage syndications, based on contractual maturity dates are as follows:

2015, balance of year	\$ 90,158,899
2016	170,500,476
2017	186,577,525
2018	23,471,429
2019	3,082,126
<b>Total</b>	<b>\$ 473,790,455</b>



## Notes to the Condensed Consolidated Interim Financial Statements

Three and nine months ended September 30, 2015 and 2014

**(b) Mortgage syndication liabilities**

The Company has entered into certain mortgage participation agreements with mainly third party lenders, using senior and subordinated participation, whereby the third party lenders take the senior position and the Company retains the subordinated position, all of which is secured by first mortgage positions. The Company generally retains an option to repurchase the senior position, but not the obligation, at a purchase price equal to the outstanding principal amount of the lender's proportionate share together with all accrued interest. Under certain participation agreements, the Company has retained a residual portion of the credit and/or default risk as it is holding the residual interest in the mortgage investment and therefore has not met the de-recognition criteria. As a result, the lender's portion of the mortgage is recorded as a mortgage investment with the transferred position recorded as a non-recourse mortgage syndication liability. The interest and fees earned on the transferred participation interests and the related interest expense is recognized in profit and loss. In addition, the Company may sell pari-pasu interests in certain mortgage investments which meet the criteria for de-recognition under IFRS. The difference between the carrying value of such interest sold and the proceeds on sale are recognized as a gain or loss in profit and loss.

As at September 30, 2015, the carrying value of the transferred assets in gross mortgage investments, including related interest receivable and unearned lender fees, and corresponding mortgage syndication liabilities is \$31,200,656 (December 31, 2014 – \$51,757,277). For Q3 2015 and YTD 2015, the Company has also recognized interest income of \$535,010 and \$1,807,803 (Q3 2014 – \$836,777; YTD 2014 - \$3,116,557) and fee income of \$47,377 and \$90,504 (Q3 2014 – \$27,217; YTD 2014 - \$160,482) and a corresponding interest and fee expense of \$582,387 and \$1,898,307 (Q3 2014 – \$863,994; YTD 2014 - \$3,277,039) in the statements of net income and comprehensive income. The fair value of the transferred assets and non-recourse mortgage syndicated liabilities approximate their carrying values (see note 12).

**(c) Allowance for mortgage investments loss**

As at September 30, 2015, the Company has concluded that there is no objective evidence of impairment on any individual mortgage investment. At a collective level, the Company assesses for impairment to identify losses that have been incurred, but not yet identified, on an individual basis. As part of the Company's analysis, it has grouped mortgage investments with similar risk characteristics, including geographical exposure, collateral type, loan-to-value, counterparty and other relevant groupings and assesses them for impairment using statistical data. Based on the amounts determined by the analysis, the Company uses judgement to determine whether or not the actual future losses are expected to be greater or less than the amounts calculated.

As at September 30, 2015, the Company has a collective impairment allowance of \$175,000 (September 30, 2014 – \$175,000).

# TIMBERCREEK SENIOR MORTGAGE INVESTMENT CORPORATION

## Notes to the Condensed Consolidated Interim Financial Statements

Three and nine months ended September 30, 2015 and 2014

### 6. CREDIT FACILITY

	September 30, 2015	December 31, 2014
Credit facility balance	\$ 186,008,191	\$ 142,075,999
Unamortized financing costs	(418,093)	(842,975)
<b>Total credit facility</b>	<b>\$ 185,590,098</b>	<b>\$ 141,233,024</b>

The Company has a credit facility limit with a syndicate of lenders in an amount of up to \$190,000,000, subject to its borrowing base as set out in the credit agreement. The credit facility bears interest at either the prime rate of interest plus 1% or bankers' acceptances ("BA") with a stamping fee of 2% of the face amount of such BA. The leverage of the Company in aggregate cannot exceed 40% of the aggregate value of the assets of the Company at any time. The credit facility is secured by a general security agreement over the Company's assets. The credit facility matures on June 23, 2016.

Interest costs related to the credit facility are recorded in financing costs using the effective interest rate method. For Q3 2015 and YTD 2015, interest on the credit facility of \$1,411,515 and \$4,241,595 (Q3 2014 - \$884,493; YTD 2014 - \$3,218,302), is included in financing costs. For Q3 2015 and YTD 2015, the Company has amortized financing costs of \$144,164 and \$435,587 (Q3 2014 - \$68,758; YTD 2014 - \$449,542) to interest expense using the effective interest rate method.

### 7. COMMON SHARES

The Company is authorized to issue an unlimited number of common shares. The holders of common shares are entitled to receive notice of and to attend and vote at all shareholder meetings. The holders of the common shares are entitled to receive dividends as and when declared by the Board of Directors.

The changes in the number of common shares were as follows:

	Nine months ended September 30,	
	2015	2014
Common shares outstanding, beginning of period	31,556,608	31,556,608
Common shares repurchased under normal course issuer bid	(98,354)	-
Common shares repurchased under dividend reinvestment plan	(114,628)	(85,984)
Common shares issued under dividend reinvestment plan	114,628	85,984
<b>Common shares outstanding, end of period</b>	<b>31,458,254</b>	<b>31,556,608</b>

#### (a) Dividend reinvestment plan

The dividend reinvestment plan ("DRIP") provides eligible beneficial and registered holders of common shares of the Company with a means to reinvest dividends declared and payable on such common shares in additional common shares.

## Notes to the Condensed Consolidated Interim Financial Statements

Three and nine months ended September 30, 2015 and 2014

Under the DRIP, shareholders may enroll to have their cash dividends reinvested to purchase additional common shares. The Manager can elect to purchase common shares on the open market or issue common shares from treasury. For Q3 2015 and YTD 2015, 42,602 and 114,628 (Q3 2014 – 29,467; YTD 2014 – 85,984) common shares were purchased on the open market under the DRIP.

**(b) Dividends**

The Company intends to pay dividends on a monthly basis within 15 days following the end of each month. During Q3 2015 and YTD 2015, the Board of Directors declared dividends of \$4,727,356 and \$14,194,338 or \$0.15 and \$0.45 per share (Q3 2014 – \$4,733,488, \$0.15 per share; YTD 2014 – \$14,200,472, \$0.45 per share). As at September 30, 2015, \$1,572,913 (December 31, 2014 – \$1,577,831) was payable to the holders of common shares. Subsequent to September 30, 2015, the Board of Directors declared dividends of \$0.05 per common share, to be paid on November 13, 2015 to the holders of common shares of record on October 31, 2015.

**(c) Normal course issuer bid**

On November 13, 2014, the Company received the approval of the TSX to commence a normal course issuer bid to purchase for cancellation up to 3,133,590 common shares, representing approximately 10% of the common shares float on November 11, 2014, with an expiry date of November 16, 2015 or such earlier date that the bid is complete. Subject to certain exemptions for block purchases, the maximum number of common shares that the Company may acquire on any one trading day is 8,454 common shares, such amount representing 25% of the average daily trading volume of the common shares for the six calendar months prior to the start of the normal course issuer bid. During YTD 2015, the Company acquired 98,354 shares for cancellation at a cost of \$747,020.

**8. NON-EXECUTIVE DIRECTOR DEFERRED SHARE UNIT PLAN**

Commencing January 1, 2015, the Company instituted a non-executive director deferred share unit plan, whereby, up to 100% of the compensation for a director may be paid in the form of DSUs, credited quarterly in arrears. Directors may elect annually, in accordance with the Plan, as to how much (if any) of the compensation will be paid in DSUs, having regard at all times to the ownership guidelines of the Plan. The portion of a director's compensation which is not payable in the form of DSUs shall be paid by the Company in cash, quarterly in arrears. The fair market value is the volume weighted average price of a common share as reported on the TSX for the 20 trading days immediately preceding that day (the "Fair Market Value"). DSUs granted entitle the directors to also accumulate DSUs equal to the monthly cash dividends, assuming the reinvestment of the dividends into units is based upon the Fair Market Value of the common shares on the dividend payment date.

Following each calendar quarter, the director DSU accounts will be credited with the number of DSUs calculated by multiplying the total compensation payable in DSUs divided by the Fair Market Value. Each director is also entitled to an additional number of DSUs that is equal to the result of multiplying 25% of the DSU's issued in the quarter up to a maximum value of \$5,000 per annum.

# TIMBERCREEK SENIOR MORTGAGE INVESTMENT CORPORATION

## Notes to the Condensed Consolidated Interim Financial Statements

Three and nine months ended September 30, 2015 and 2014

The Plan will pay a lump sum payment in cash equal to the number of DSUs held by each director multiplied by the Fair Market Value of one common share as of the 24th business day after publication of the condensed consolidated interim financial statements following a director's departure from the Board of Directors.

For the nine months ended September 30, 2015, the directors, on average, have elected to receive 89% of their quarterly compensation in DSUs. For Q3 2015 and YTD 2015, 5,960 and 11,908 DSUs respectively were issued and outstanding and no DSUs were exercised or cancelled. For YTD 2015, DSU expense was \$89,903 based on a Fair Market Value of \$7.55 per common share. As at September 30, 2015, the fair value of the outstanding DSUs amounted to \$89,903 and is included in accrued expenses.

### 9. MANAGEMENT FEES

The Manager is responsible for the day-to-day operations of the Company, including administration of the Company's mortgage investments. In accordance with the management agreement, the Company shall pay to the Manager a management fee equal to 0.85% per annum of the gross assets of the Company, calculated and paid monthly in arrears, plus applicable taxes. Gross assets are defined as the total assets of the Company before deducting any liabilities, less any amounts that are reflected as mortgage syndication liabilities related to syndicated mortgage investments that are held by third parties. The initial term of the management agreement is 10 years from September 13, 2013 and is automatically renewed for successive five year terms at the expiration of the initial term.

For Q3 2015 and YTD 2015, the Company incurred management fees of \$1,107,435 and \$3,289,600 (Q3 2014 – \$956,809; YTD 2015 - \$2,870,475).

### 10. EARNINGS PER SHARE

Basic and diluted earnings per share are calculated by dividing net income by the weighted average number of common shares outstanding during the period.

	Three months ended		Nine months ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Numerator for earnings per share:				
Net income and comprehensive income	\$ 4,800,459	\$ 4,597,312	\$ 14,397,220	\$ 14,091,991
Denominator for earnings per share:				
Weighted average number of common shares (basic and diluted)	31,535,701	31,556,608	31,549,562	31,556,608
Earnings per share – basic and diluted	\$ 0.15	\$ 0.15	\$ 0.46	\$ 0.45

## Notes to the Condensed Consolidated Interim Financial Statements

Three and nine months ended September 30, 2015 and 2014

**11. RELATED PARTY TRANSACTIONS**

- (a) As at September 30, 2015, other assets includes due from Manager relating to management fees of \$832. As at December 31, 2014, due to Manager includes \$23,050 relating to management fees payable and \$6,919 relating to costs incurred by the Manager on behalf of the Company.
- (b) The Manager is responsible for the general management and day to day operations of the Company and, through Timbercreek Mortgage Servicing Inc. ("TMSI"), a company controlled by the Manager, is the Company's mortgage servicer and administrator. As at September 30, 2015, included in other assets is \$568,761 (December 31, 2014 – \$858,003), of cash held in trust for the Company by TMSI, the balance of which related to mortgage funding holdbacks, prepaid mortgage interest and other receivables from various borrowers.
- (c) As at September 30, 2015, the Company remains co-invested in a mortgage investment with a total gross commitment of \$76,097,424 (December 31, 2014 – \$76,097,424) where the president of one of the co-investors in the financing is also an independent director of the Company. The Company's share of the commitment is \$48,594,072 (December 31, 2014 – \$48,594,072), of which \$21,299,300 (December 31, 2014 – \$8,255,778) has been funded at September 30, 2015.
- (d) As at September 30, 2015, the Company has a mortgage investment with a total gross commitment of \$84,108,000 (December 31, 2014 – \$84,108,000) where one independent director of the Company is an officer of an indirect investor in the borrower. Another independent director is an officer and a part-owner of another co-investor in the borrower. The Company's share of the commitment is \$14,190,000 (December 31, 2014 – \$14,190,000), of which \$1,611,196 (December 31, 2014 – \$1,611,196) has been funded as at September 30, 2015.
- (e) During Q3 2015, the Company co-invested in a mortgage investment with a total gross commitment of \$55,000,000, where one independent director of the Company holds a minority interest in the borrower. The Company's share of the commitment is \$27,000,000 and has been fully advanced as at September 30, 2015.
- (f) In addition to the above related party transactions, the Company has transacted with other entities managed by the Manager, or one of its subsidiaries. As at September 30, 2015, the Company, Timbercreek Mortgage Investment Corporation ("TMIC"), Timbercreek Four Quadrant Global Real Estate Partners ("T4Q") and Timbercreek Canadian Direct LP, related parties by virtue of common management, have co-invested in several gross mortgage investments, totalling \$649,720,548 (December 31, 2014 – \$566,814,488). During the nine months ended September 30, 2015, the Company, along with its related parties, funded \$288,172,256 in co-invested gross mortgage investments and received repayments of \$130,606,353. As at September 30, 2015, the Company's share in these gross mortgage investments is \$464,282,719 (December 31, 2014 – \$423,270,549). Included in these amounts is a gross mortgage investment of \$9,610,783 (December 31, 2014 – \$8,872,821) loaned to a limited partnership in which T4Q is invested.

# TIMBERCREEK SENIOR MORTGAGE INVESTMENT CORPORATION

## Notes to the Condensed Consolidated Interim Financial Statements

Three and nine months ended September 30, 2015 and 2014

The above related party transactions are in the normal course of business and are recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

### 12. FAIR VALUES MEASUREMENTS

The following table shows the carrying amounts and fair values of assets and liabilities.

September 30, 2015	Carrying Value		Fair value
	Loans and receivables	Other financial liabilities	
<b>Financial assets not measured at fair value</b>			
Other assets	\$ 749,462	\$ -	\$ 749,462
Mortgage investments, including mortgage syndications	506,434,327	-	506,434,327
<b>Financial liabilities not measured at fair value</b>			
Accounts payable and accrued expenses	-	397,790	397,790
Dividends payable	-	1,572,913	1,572,913
Mortgage funding holdbacks	-	105,097	105,097
Prepaid mortgage interest	-	316,834	316,834
Credit facility	-	185,590,098	185,590,098
Mortgage syndication liabilities	-	31,200,656	31,200,656

The fair value hierarchy, valuation techniques and the inputs used for the Company's assets and liabilities are as follows:

#### (a) Mortgage investments and mortgage syndication liabilities

There is no quoted price in an active market for the mortgage investments or mortgage syndication liabilities. The Manager makes its determination of fair value based on its assessment of the current lending market for mortgage investments of same or similar terms. Typically, the fair value of these mortgage investments and mortgage syndication liabilities approximate their carrying values given the amounts consist of short-term loans that are repayable at the option of the borrower without yield maintenance or penalties. As a result, the fair value of mortgage investments is based on level 3 inputs.

#### (b) Other financial assets and liabilities

The fair values of other assets, accounts payable and accrued expenses, dividends payable, mortgage funding holdbacks, prepaid mortgage interest and credit facility approximate their carrying amounts due to their short-term maturities.

There were no transfers between level 1, level 2 and level 3 of the fair value hierarchy during YTD 2015.

### **13. COMMITMENTS AND CONTINGENCIES**

In the ordinary course of business activities, the Company may be contingently liable for litigation and claims arising from investing in mortgages and loans. Where required, management records adequate provisions in the accounts.

Although it is not possible to accurately estimate the extent of potential costs and losses, if any, management believes that the ultimate resolution of such contingencies would not have a material adverse effect on the Company's financial position.